

March 28, 2006

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VIA E-MAIL & HAND DELIVERY

The Honorable Public Utilities Commission of the State of Hawaii
Kekuannao`a Building, First Floor
465 South King St.
Honolulu, Hawaii 96813

Attn: Stacey Kawasaki Djou, Chief Legal Counsel

Re: Docket No. 05-0002; Comments to Report: Recommendations to Modify
Hawaii Revised Statutes Chapter 486H, Gasoline Price Cap Legislation, For the
Ethanol Mandate, Hawaii Administrative Rules, Title 15, Chapter 35, dated
March 23, 2006 submitted by ICF Consulting, LLC ("ICF")

Dear Public Utilities Commission:

Pursuant to that certain email of Commission counsel Nichole K. Shimamoto dated March 23, 2006, the Hawaii Petroleum Marketers Association ("HPMA") hereby provides its comments to the above referenced report (the "Report"). Due to the limited time to review the Report and respond, HPMA reserves the right to make additional comments at a later time.

On the whole, HPMA supports the conclusions reached by ICF and the adjustments that need to be made to address the financial impact the ethanol mandate will have on the wholesale petroleum industry in Hawaii; however, HPMA would like to note its objections to certain points made in the Report:

1. Capital Cost Adjustments. At pages 25-27 of the Report, ICF recommends a capital amortization period of 11 years. This period is simply too long given the risks to which the industry and the participants are exposed. Such risks include changes to the law and changes to the ethanol supply/demand situation which could make any capital investment unnecessary in whole or in part, and additional risks due to the temporary nature of the leases/permits for the properties where the investments are being made. For most businesses, the typical return on investment target is 3 to 5 years. Therefore, HPMA suggests using a 5 year amortization period as providing a tolerable risk level for making such investments.

At page 26 of the Report, ICF recommends a 6% interest rate to accompany the 11-year amortization period based on LIBOR plus 1%. This rate of interest rate is too low given that

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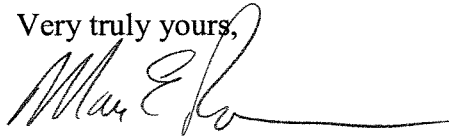
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typically these capital improvement projects are not funded from commercial borrowings but, in part, from equity which commands a higher rate of return. Accordingly, HPMA recommends an interest rate of 12% to support a blended rate of return on capital (debt and equity) invested.

2. Zone 8 Adjustment. At page 34 of the Report, ICF recommends a zone factor adjustment to Zone 8 (Kona) of 2.9 cpg. The adjustment reflects a return on the terminal investment at Kona, however it fails to account for the fact that ethanol product will have to be trucked to Kona from Hilo. The investment and adjustment for the terminal costs in Kona would be much higher if an ethanol pipeline to the terminal were constructed; however, by trucking the ethanol from Hilo to Kona, industry participants will avoid the need to make the pipeline investment but at the same time should receive an increase to the adjustment factor to reflect increased trucking costs for Kona (Zone 8) in the range of 4 to 5 cpg.

Should you have any questions, please do not hesitate to contact me.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Marc E. Rousseau", with a long horizontal flourish extending to the right.

Marc E. Rousseau

for

CADES SCHUTTE

A Limited Liability Law Partnership

Cc: Hawaii Petroleum Marketers Association

Attn: Mr. Robert Fung (via e-mail)

Parties' Counsel (via e-mail)